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REPUBLIC OF INDONESIA

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Highlights

Politics

- Russian President to visit Jakarta before traveling to APEC
- Jakarta played a major role in securing release of Taliban hostages

Regions

- Flight recorders from a January 1 air crash retrieved and readable

Economy

- Russian group keen to follow S. Korea, Japan as investor

Business briefs

Macroeconomy

- Bank Indonesia to retain benchmark interest rate
- Government sells Rp9.5 trillion of bonds amid keen market interest

Investment

- Russia's Altimo still keen on telecoms investment
- Lippo Group to invest \$650 million in multimedia

State concerns

- New export tariff rates set for crude palm oil
- Import duties dropped on steel used in construction industry

SOEs

- New boards at some state-owned companies
- Chinese firm to provide technology for CDMA phone expansion

Private sector

- Noodle maker posts 37% rise in half year net profit on lower interest charges
- PT Indosat borrows \$170 million for capital expenditure

Banks

- Bank credit expansion at 20-22%, Bank Indonesia says
- Bank Mandiri to tap offshore markets for first time for four years

Power

- Consortium to build North Sumatra geothermal plant
- State utility PLN slashes losses by 58% in first half

Oil & gas

- Government sees higher output from 14 new fields
- Deadline set for Kalimantan-Java gas pipeline

Mining

- India's Coal & Oil in 10-year, \$1.5 billion purchase contract
- PT Aneka Tambang first half profit jumps fivefold on strong prices

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POLITICS

Putin to Visit Jakarta

Russian President Vladimir Putin will visit Indonesia, Australia and the United Arab Emirates in a tour starting next week, the Kremlin said on Friday (31/8/07), Agence France-Presse reported.

Putin will make an official visit to Jakarta on September 6, then travel on to Sydney for one day of meetings with Australian leaders and a two-day summit with heads of state from the 21-nation Asian-Pacific Economic Cooperation (APEC) group.

The Russian president will visit the UAE on September 10 on his way back to Moscow, the Kremlin said in a statement.

Jakarta Plays Afghan Role

Indonesia played a key role in mediating a successful negotiation between the Taliban and South Korea, leading to the release of 12 Korean hostages on Wednesday (29/8/07), Foreign Ministry Secretary General Imron Cotan told *The Jakarta Post*.

Cotan said after receiving a request from the Taliban on Monday, Foreign Minister Hassan Wirayuda directed the Indonesian ambassador in Kabul to verify the request, and then contacted the Afghanistan and South Korean governments to make it clear that all parties accepted Indonesia's role.

"We made it clear also that our role would be that of a mediator during the negotiation and a witness -- as the Taliban wanted us to be -- of the release of the hostages," Cotan said. "After the all-clear, our official, the Taliban and South Korean delegations, and with the ICRC (International Committee of the Red Cross) acting as a facilitator, began talks on Tuesday that led to release of the hostages."

The Indonesian government dispatched Kabul-based diplomat Heru Wicaksono to handle the negotiations in Ghazny, a province about 200 km south of Kabul.

Indonesia has been involved in several successful mediations, including helping end the Cambodian conflict in the 1980s, facilitating the return of former US Korean War defector Charles Jenkins and his family, and the release of kidnapped journalists in Iraq in 2005.

Mardiyanto Gets Home Affairs

President Susilo Bambang Yudhoyono has appointed Central Java Governor Mardiyanto as the new home affairs minister, replacing the ailing Mohammad Ma'aruf, who is still recovering from a heart attack he suffered earlier this year.

The president said on Tuesday (28/8/07) he had chosen the retired army major general after consulting with Vice President Jusuf Kalla, his three coordinating ministers and other advisers.

Coordinating Minister for Political, Legal and Security Affairs Widodo Adi Sucipto was named acting home affairs minister in April, not long after Ma'aruf was admitted to hospital for what has turned out to be a prolonged period of rehabilitation.

Yudhoyono formally installed the new minister at a ceremony at the State Palace on Wednesday afternoon attended by other members of cabinet.

Mardiyanto was born in Surakarta, Central Java, on November 21 1946. He graduated from the National Military Academy in 1970 and by 1995 had become an assistant to the Indonesian Armed Forces (ABRI) chief of sociopolitical affairs.

He was then appointed to head the Semarang-based Diponegoro regional command, overseeing Central Java and Yogyakarta.

Mardiyanto was elected as the Central Java governor in 1998 and easily won a second term in 2003.

Malaysia Apologizes For Beating

Malaysia has formally apologized to Indonesia over the alleged assault of an Indonesian karate referee by police during a trip to Kuala Lumpur last week, Agence France-Presse reported on Friday (31/8/07).

Malaysian Prime Minister Abdullah Badawi called President Susilo Bambang Yudhoyono on Thursday night, according to a presidential spokesman, who characterized the conversation as one among siblings. "The prime minister offered his regrets and apologized over the incident," he said.

Four plainclothes Malaysian policemen are alleged to have beaten up referee Donald Kolobita when he refused to show identification to prove he was not an illegal immigrant.

The incident sparked a furor in Indonesia, with street protesters in Jakarta and other Indonesian cities urging the government to 'immediately severe' diplomatic ties with Malaysia and accusing Malaysia of being an "uncivilized nation."

Malaysia's ambassador to Jakarta visited the referee in hospital on Thursday and delivered a letter from Malaysian police chief Musa Hassan also offering an apology.

On Tuesday, Malaysian Foreign Minister Syed Hamid Albar expressed his country's "deep regret" over the incident at a meeting with Yudhoyono.

"We are serious in considering cases pertaining to Indonesians that involve violations of Malaysian law," Syed told reporters after the meeting. "The Malaysian government will take legal action against those responsible... We feel saddened."

Kolopita was in Malaysia to officiate at the Asia Karate Championships when he was set upon by the four police officers as he was walking back to his hotel on August 24.

REGIONS

Salvage Crew Retrieves 'Black Boxes'

Two black boxes recovered this week from an Indonesian airliner that plummeted into the sea on New Year's Day, killing 102 people, should be readable, a technician said Friday, Agence France-Presse reported.

The Boeing 737-400 operated by budget carrier Adam Air went missing on a flight from Surabaya in East Java to Manado in North Sulawesi while heading toward the coast of West Sulawesi.

The flight data and cockpit voice recorders were found on Monday at depths of at least 1,900 meters. Experts had expressed concern that they may be useless due to the great pressure exerted on them underwater.

Soerjanto, a technical engineer from Indonesia's National Transport Safety Committee (KNKT), said that the boxes were in good condition and the tapes would be readable.

"Inside the black box, there is a crash protection box... Their conditions are still good, with no damage at all, meaning that the tapes inside the boxes will be fine," he said.

He added that the recorders would be sent to the United States this week for the data to be retrieved.

Determining the cause of the crash is important because it could prevent similar accidents in the future, Transportation Minister Jusman DjamaI said.

Prosecutors Dismissed In Papua

The head of the Papua Provincial Prosecutors' Office, Lorens Serworwora, and six other prosecutors have been dismissed from their positions for failing to follow guidelines set by the Attorney General's Office during an investigation into an illegal fishing case.

"They disobeyed the guidelines set by the Attorney General's Office in relation to the prosecution of two suspects in an illegal fishing case. Therefore, they have been dismissed from their positions," Junior Attorney General for Internal Supervision, M.S. Rahardjo, told detik.com on Thursday (30/8/07).

"They had been ordered to charge two suspects, identified as SM and JM, under article 93 or 27 of Law No. 31/2004 on Fisheries or article 55 of the Criminal Code, which seeks a maximum jail term of four years and a fine of Rp 1 billion.

"But instead they charged them with articles 97 or 38 of the fisheries law, which seeks the lighter jail term of six months and a fine of Rp500 million," he said.

ECONOMY

Russian Firms Keen to Invest

After a successful visit by President Susilo Bambang Yudhoyono to South Korea, the signing of the Economic Partnership Agreement (EPA) with Japan, it is now Russia's turn to offer economic assistance.

Russian President Vladimir Putin is to visit Jakarta on Thursday (6/9/07) together with a business contingent including senior officials from Altime, a subsidiary of Russia's Alfa Group, which earlier said it is keen to invest up to \$2 billion in the country's telecommunications sector.

Russia has also mooted a satellite launch pad at Biak in West Papua and President Putin has approved a \$1 billion loan for Indonesia to purchase military supplies, including Sukhoi jets.

The South Korea visit by President Yudhoyono earlier brought commitments of some \$7 billion, mostly for a coal liquefaction plant and coal railway in East Kalimantan.

The signing of the EPA was accompanied with comments by Japanese business leaders that they expected some \$5 billion in investment over the next five years, mainly in the energy and automotive sectors.

Bank Indonesia (BI) meanwhile stated that it sees economic growth next year at between 6.2% and 6.8%.

Deputy Governor Aslim Tadjuddin said on Monday that the central bank would try to reduce the volatility of the rupiah exchange rate and keep it around 9,000-9,300 per dollar next year, Reuters reported.

Strong demand returned for government bond issues, with sales totaling Rp9.5 trillion on Tuesday, amid speculation interest rates will continue to fall.

The sale figure was triple the level planned. The debt sale consisted of Rp6 trillion worth of 15-month zero coupon bonds at an average yield of 8.24%, and Rp3.5 trillion in 21-year bonds priced to yield 10.29%, Reuters reported.

Officials said the strong response reflected a turnaround in market sentiment for long-term government bonds that had been hit hard in recent weeks by US subprime mortgage woes.

More positive first half results came in from the private sector, with Indofood announcing a 37% boost in net profit for the semester over the same period last year.

At the state-owned enterprises ministry, Minister Sofyan Djalil was continuing his drive to revitalize the sector, announcing imminent changes to board at a number of companies.

The board at pharmaceutical company PT Kimia Farma was replaced late in August, and changes are now planned for Bank BTN, PT Inka and Lembaga Kliring.

A process to replace directors at pension fund company PT Taspen, insurance companies Jasindo and Jiwasraya, was underway, *Business Times* reported.

The government confirmed that it would give companies listing on the Jakarta Stock Exchange a 5% tax break, putting their effective tax rate at 25%.

The exchange, after a week still unsettled by US financial concerns, closed 2.0% higher on Friday in line with gains in key regional markets, closing at 2,194.34 for the week. The rupiah was firmer at 9,395/9,400 to the US dollar.

BUSINESS BRIEFS ECONOMY

BI Sees Steady Rates

Bank Indonesia (BI) expects to keep its key interest rate steady near term, amid volatile markets and inflationary pressure ahead of the religious holidays, senior Deputy Governor Miranda Goeltom said on Wednesday (29/8/07).

The central bank held the rate steady in August at 8.25% amid worries over the fallout from The US subprime mortgage crisis and following higher-than-expected annual inflation in July.

"It is not the right time to cut the interest rate. It would be better to hold it at the current level at 8.25%," Goeltom said when asked about the interest rate outlook ahead of the bank's rate review meeting on September 6.

"We expect to keep it steady for now while assessing the situation and will make the decision at the right time on when interest rates should fall," she was quoted as saying by Reuters.

The rupiah hit a one-week low of 9,436 per dollar on Wednesday after weak US economic data and amid falls in the domestic stock market.

Goeltom also said that BI is ready to smooth out volatility in the foreign exchange market. "We need to inform the market that BI is on alert. We are ready to do something if needed because we don't want to see sharp volatility which will cause uncertainty for business."

She said the central bank sees inflationary pressure in coming months ahead of religious celebrations but added that it is maintaining its year-end inflation forecast of about 6%.

Govt. Sells Rp9.5t of Bonds

The government on Tuesday (28/8/07) sold Rp9.5 trillion of bonds to help finance the state budget, an official said.

It sold Rp3.5 trillion of 21-year bonds at an average yield of 10.29%, Rahmat Waluyanto, Director General of Debt Management at the Finance Department, was quoted as saying by Dow Jones Newswires. The bonds carry a 10% coupon.

The government also sold Rp6 trillion of 15-month zero-coupon papers via an auction at an average yield of 8.24%, Waluyanto said.

Waluyanto said that Tuesday's auction drew a good response from the market and suggested that the impact of the US subprime credit crisis on Indonesia's financial markets is gradually waning.

Revised Budget Includes Cooking Oil Subsidy

The House of Representatives on Tuesday (28/8/07) approved the midyear revisions to the 2007 budget, which see a downsizing in anticipated government revenue and spending, a wider deficit, additional funds for bureaucracy reform and a new cooking oil subsidy, reported *The Jakarta Post*.

The subsidy, intended to shield poor households from the effects of higher cooking oil prices, will amount to Rp325 billion (\$36 million), while the additional money earmarked for helping fix the bureaucracy -- mostly in the form of pay rises in the Finance Department -- comes to Rp1.46 trillion.

The revised budget also sees a bigger subsidy for state power firm, PT PLN, at Rp32.4 trillion, but lower fuel subsidy spending of Rp55.6 trillion.

Legislators agreed that the two new allocations be included in this year's total government spending, which saw a 1.4% cut to Rp752.4 trillion (\$83 billion).

The 2007 revised budget still sees the economy growing by 6.3%, inflation is predicted to continue slowing to 6%, while the rupiah is forecast to average Rp9,050 against the US dollar, and the central bank benchmark interest rate at 8%.

All of the House's 10 factions approved the budget revisions, subject to supplementary comments.

"This year's 6.3% growth should be of higher quality, in the sense that it should create millions of new jobs, and be built on 3.3% growth in the agricultural sector and 8.5% growth in the manufacturing industry," budget committee chairman Emir Moeis said.

INVESTMENT

Altimo Keen on Indonesia Investment

Altimo, a subsidiary of Russia's Alfa Group, remains keen on its investment plans for Indonesia, a company official said.

"We will never give up on our plan, including the possibility of buying a mobile telecommunications operator here," Altimo local chief representative Suharto told *The Jakarta Post* on Tuesday (28/8/07).

The company has been making it clear since last December that it wants to get into the Indonesian telecommunications market through a stake in one of the existing players, and is ready to invest up to \$2 billion in total.

Suharto said that buying a stake in an existing operator would be easier than setting up a new one and starting from scratch. "Acquiring shares on the stock market would also be difficult as the number of

shares on offer is limited so that their price would rocket as soon as the market got wind of what was going on."

Lippo Group to Invest \$650m in Multimedia

Lippo Group is set to invest \$650 million in its multimedia business PT First Media over a period of four years to develop its cable network, a First Media executive said on Thursday (30/8/07), according to Reuters.

More than half of the total investment, or \$350 million, will be invested in expanding First Media's cable network while the rest will be used for marketing and research. First Media has 130,000 subscribers for its cable TV and 18,000 high-speed internet subscribers in the Greater Jakarta area, Surabaya and Bali.

First Media's CEO Roberto Feliciano said he expects this to increase as only 2 million out of 18 million internet users in Indonesia have access to high-speed internet. The company plans capital expenditure of \$200 million this year to strengthen its 2,597-km cable network to achieve its target of reaching 1 million households in the Greater Jakarta area by early 2009.

Firms to Build Five Sugar Mills - Official

Five companies will build five integrated sugar mills with a combined capacity to process 26,000 tons of cane per day, an Agriculture Department official said on Thursday (30/8/07).

The country plans to boost production of white sugar from local plantations by 40% to 3.3 million tons in the next two years in a bid to become self-sufficient. To meet the target, it needs to grow more sugar on its plantations and improve the capacity of its sugar mills.

Agus Hasanuddin Rachman, the department's director of perennial crop development, said the five private firms include PT Astra Agro Lestari and PT Sinar Mas Agri Business and Food. "They are expected to start producing white sugar in 2009-2010," Rachman told Reuters.

He said Astra Agro Lestari is seeking at least 10,000 hectares of land for sugar plantations in South Sulawesi. Sinar Mas already has 9,000 hectares in South Sulawesi but plans to expand this holding to 15,000 hectares.

Cahyo Dwiariantono, head of Astra Agro Lestari's investor relations team, said the plan to build a sugar mill is a long-term plan as the firm is focusing on palm oil. Separately, the managing director of Sinar Mas, Gandy Sulistyanto, said land clearing will proceed this year and it expects to start producing white sugar by 2009.

The country needs to import sugar for both household and industrial consumption. Households are expected to consume 2.76 million tons of white sugar by 2009, up from 2.66 million tons in 2006.

STATE CONCERNS

New Palm Oil Tax Rates Set

The government will introduce a new palm oil export tax scheme from Monday (3/9/07) as it seeks to stabilize cooking oil prices in one of the world's largest palm oil exporters, a government statement said on Friday, Reuters reported.

Cooking oil prices have jumped by around 30% since early this year on surging global crude palm oil prices and have remained high despite an export tax increase in the middle of June to curb exports.

In a fresh bid to contain soaring prices, the government will set the export tax for crude palm oil at 10% if

international prices are above \$850 a ton, at 7.5% if prices are between \$750-\$849 a ton and 5% if international prices are between \$650-\$749 a ton.

CPO for September delivery was quoted at \$835 per ton CIF Europe on Friday.

Under the existing scheme, there is a flat 6.5% export tax on CPO and its by-products.

On Wednesday, Agriculture Minister Anton Apriyantono said on Wednesday that by scrapping the value-added tax, producers would be more interested in processing crude palm oil at home.

"Scrapping the value-added tax will be an incentive for producers to process crude palm oil at home instead of exporting it because it will be cheaper," he was quoted as saying by Reuters.

Import Duty on Hot-Rolled Steel Suspended

The government has suspended a 5% import duty on hot-rolled steel coil to secure domestic supplies, an Industry Department official said on Tuesday (28/8/07).

The government suspended the import duty in early August and would maintain the move at least until December, Ansari Bukhari, the department's Director General of Metal, Machinery and Textiles, was quoted as saying by Reuters.

The action only applied to imports of hot-rolled steel coil measuring below 2 mm, he said. "The government will evaluate whether to extend the policy or reintroduce the 5% import duty."

The domestic industry has been facing shortages as output lagged consumption. Local demand for hot-rolled steel coil, used in construction and ship building, averages 1 million to 1.1 million tons a year and is expected to grow by up to 8% a year, spurred by an improving economy, said Bukhari.

State-owned PT Krakatau Steel, the sole producer of hot-rolled steel coil in the country, produces between 700,000 and 800,000 tons a year.

Indonesia mainly imports hot-rolled steel coils from China, India and Korea, with total imports of 400,000 tons per year.

H1 Tourist Arrivals Up 12.2% Yr-on-Yr

The number of foreign tourists who visited Indonesia in the first half of the year was up 12.2% compared to the same period last year, a Tourism Department official said.

Some 2,143,000 foreign tourists visited the country from January to June, compared to 1,909,600 in the same time last year, the department's marketing director, Thamrin B Bachri, was quoted as saying by Antara.

Last June, 411,200 foreign tourists arrived in the country, topping the figures for the same month in the past three years, he said.

With the increase in tourist arrivals in the first half, Bachri said there is reason for the government to be optimistic that it would achieve its target of attracting 6 million foreign tourists this year. Indonesia hopes to earn \$5.4 billion from its visitors.

SOEs

New Boards for Some SOEs

The government will soon replace the boards of directors of a number of state-owned enterprises to improve their performance, State Minister for State Enterprises Sofyan Djalil said recently, according to Antara.

Djalil said he plans to replace directors of Bank Tabungan Negara (BTN), PT Inka and PT Lembaga Kliring. Meanwhile, a process to replace directors at pension fund company PT Taspen, and insurance companies PT Jasindo and PT Jiwasraya is underway.

"The same process is also taking place at PT Perumnas," he said.

The minister said he had earlier wanted to finish the replacement of directors at 60 state-owned companies in a month's time, but until now he had been able to do it at only 39 companies. Some directorships at 21 state-owned companies are still vacant or filled by caretakers.

China's ZTE Corp Ties Up with Telkom

China's ZTE Corp, a provider of telecommunications equipment, said in a statement that it has signed an agreement to help expand PT Telkom's CDMA2000 network capacity, XFN-Asia reported.

Under the contract, the network expansion will cover the four main cities in the eastern part of Sulawesi. Financial details of the agreement were not provided.

State-owned Telkom operates the largest CDMA network in Indonesia, serving 5 million users. It has a market share of 50%.

ZTE previously partnered with Telkom in August 2004, when it supplied optical network products for Telkom's national backbone network transmission project.

PRIVATE SECTOR

Indofood's H1 Net Profit Up 37% Yr-on-Yr

PT Indofood Sukses Makmur reported a 37% rise in first-half net profit on Thursday (30/8/07) after a significant reduction in net interest expenses.

Indofood, controlled by the Salim family through Hong Kong-listed First Pacific Ltd, said its net profit rose to Rp367.18 billion (\$39 million) in January to June, up from Rp267.77 billion a year ago.

Sales climbed 21% to Rp12.3 trillion, while operating profit increased 6.9% to Rp994.03 billion.

"The rest of 2007 will continue to be challenging as raw material prices, particularly wheat, show no sign of softening," Anthoni Salim, Indofood's chief executive officer, said in a statement.

"We will continue to be vigilant in controlling our operating costs, increasing our operating efficiency as well as enhancing our marketing and distribution strategies," he added.

Indofood, which has a market capitalization of \$1.9 billion, said previously it is aiming for a 6% increase in noodle sales volumes, from 11.82 billion packs in 2006. It is also planning to boost its annual capacity to 14.5 billion packs from 13.5 billion.

Indosat Gets \$170m Loan from BCA

PT Indosat said Wednesday (29/8/07) it has obtained a Rp1.6 trillion (\$170 million) loan from Bank Central Asia (BCA) which will be used for capital expenditure and general purposes.

Indosat finance director Wong Heang Tuck told Thomson Financial that the loan has a repayment period of five years. He said the company is also holding talks for loans with other banks.

Indosat recently boosted its projected capital spending for this year to \$1.2 billion from an earlier estimate of \$1 billion, as it needs additional funds for the expansion of its cellphone network.

Excelcom Targets Revenue Growth Above 20%

Cellular phone operator PT Excelcomindo Pratama expects to maintain its annual revenue growth rate at more than 20% through to 2010, driven by a consistent increase in subscribers, despite an increasingly competitive market, its president director said.

In fiscal year 2007, that growth is set to be even higher at 25% to 30%, Hasnul Suhaimi told Dow Jones Newswires in an interview.

In the first half of the year, Excelcom's revenue grew 28% to Rp3.7 trillion, from Rp2.9 trillion a year earlier, after the company added 1.8 million subscribers to bring its total subscriptions to 10.3 million.

About 28% of the population has a cellular phone, providing plenty of room for growth over the next three years, analysts said.

"Compared to other neighboring countries, which have an average penetration rate of above 50%, I think Indonesia's cellular industry still has robust growth prospects," Suhaimi said.

BANKS

2007 Bank Loans Seen Up 20%-22%: BI

Outstanding loans in the banking sector are expected to grow 20% to 22% in 2007, higher than last year's growth of 14.6%, Bank Indonesia (BI) Governor Burhanuddin Abdullah said late on Wednesday (29/8/07).

The central bank previously forecast loans would grow 18% this year after Indonesia's \$187.9 billion banking sector was hit by high interest rates, causing loan growth to slow to 14.6% last year from 22.7% in 2005. Total outstanding loans last year stood at Rp832.9 trillion (\$88.5 billion), up from Rp730.2 trillion in 2005.

Lippobank economist Winang Budoyo said government infrastructure projects and stronger consumer spending should boost lending.

"I think 20%-22% loan growth is quite reasonable. It will be supported by loans to infrastructure projects such as toll roads," Budoyo told Reuters. "Consumer purchasing power is also recovering from a shock of fuel price hikes in 2005. It is encouraging firms to seek lending to expand their business."

In line with the central bank's outlook, Bank Mandiri said it has revised up its loans growth target to 22% from 20%, helped by lower rates and infrastructure developments.

"We have surpassed our earlier target to achieve Rp23 trillion to Rp24 trillion of new loans or growth of 20% by the end of this year," Pahala Mansury, the bank's finance director said.

Mandiri's outstanding loans stood at Rp117.67 trillion last year.

Bank Mandiri Plans to Issue \$300m Bonds

Bank Mandiri is planning to issue \$300 million in three-year senior bonds in October or November to strengthen its capital base, *Bisnis Indonesia* reported Wednesday (29/8/07).

The newspaper quoted the bank's managing director for international treasury, Thomas Arifin, as saying that the bank had sent invitations to investment banks the previous week to underwrite the bonds.

The bank last tapped the offshore bond market in April 2003.

Bank ANK to Merge with Commonwealth

Bank Arta Niaga Kencana will be merged into the Commonwealth Bank of Australia (CBA) once a planned takeover is completed, the banks said Friday (31/8/07), according to Agence France-Presse.

CBA has already purchased ANK stocks held by private shareholders, amounting to 57% of the bank.

After the merger, CBA, Australia's largest retail bank, will have 50 branches operating on Java and Bali islands. The banks said no lay-offs would occur after the merger.

CBA announced earlier this month that its full-year cash net profit had risen 18% to \$3.8 billion on the back of a strong economy, beating profit forecasts.

POWER

Consortium to Clinch Geothermal Project

A consortium of Indonesia's Medco Energi, Itochu of Japan and US contractor Ormat is finalizing details with state-owned companies Pertamina and PLN for the \$800 million Sarulla geothermal project in North Sumatra, *Upstream* reported on Friday (31/8/07).

The proposed 340-MW geothermal project will be built over the next five years in three phases of 110 or 120 MW each. The first power-generating unit is expected to be operational within 30 months of the financial closing, with the two remaining units to follow within a further 18 months.

Power produced at Sarulla will serve PLN's North Sumatra and Aceh power grid.

The Medco-led consortium signed a heads of agreement with PLN and Pertamina to speed up the sealing of the energy sales contract and joint operating contract for the stalled geothermal project.

Sarulla, which lies in Tapanuli Utara, is the largest single-contract geothermal project in the world, according to Medco.

The three partners committed to completing development of the geothermal field, initially awarded to Unocal but shelved in 1998 because of the Asian financial crisis. PLN subsequently bought out Unocal's stake for \$60 million.

The consortium will own and operate the plant, based on three Ormat-designed and supplied power units, and sell electricity to PLN under a 30-year contract, the terms of which have yet to be finalized.

The Japan Bank for International Co-operation will provide most of the approximate \$800 million total project financing via a deal the bank signed with the Finance Ministry.

Kyushu Electric Power Company is keen on the Sarulla project and the Japanese company's possible involvement is being negotiated under a memorandum of understanding signed last week with the consortium.

PLN Cuts Losses in First Half

State-run electricity company PT PLN said Thursday (30/8/07) it had cut its losses by 58% during the first half of this year thanks to a cut in production costs and a rise in the government's subsidy, *The Jakarta Post* reported.

PLN said the company's losses dropped to Rp967 billion (\$100 million) in the first half of this year, from Rp2.26 trillion in the same period last year.

The company said total revenues rose by 9% to Rp52.23 trillion in the 2007 January to June period, from Rp47.79 trillion in the same period last year.

Sales increased by 8.6% to Rp37.2 trillion while the government's subsidy payment for electricity was raised by 13.1% to Rp14.4 trillion.

PLN president commissioner Alhilal Hamdi said previously the company was expected to book its first profit this year after more than eight years in the red.

PLN is expected to post Rp3.8 trillion (\$422 million) in net profit this year on the back of lower production costs, he said.

OIL & GAS

Govt. Sees Higher Output from 14 New Fields

The government is pinning its hopes on the development of 14 new oil fields to meet next year's oil production target of 1.034 million barrels per day, slightly higher than this year's estimate of 1 million bpd, *The Jakarta Post* reported.

Abdul Muin, Upstream Oil and Gas Regulatory Agency (BP Migas) deputy chairman, said Tuesday (28/8/07) that the government was optimistic it would be able to reach its target as 14 new fields, including Banyu Urip in the Cepu block in East Java, were expected to come on stream sometime next year.

Other fields that were also expected to commence production, Abdul said, included a number of fields owned by big oil companies, such as Chevron, Total E&P and state-owned oil and gas firm Pertamina.

In the assumptions presented to the lawmakers, the government said Chevron's oil production would reach 376,300 bpd next year, including additional output from its four new fields -- Duri, Balam South, Telissa WF and Kota Batak.

Pertamina's production is estimated to increase to 135,600 bpd next year including a contribution from its new Pondok Tengah field. The other fields are Medco's Fariz, Star Energy's Lukah I-X, PetroChina's North East AJA, Talisman's South Guruh and Hess's Gading Island and Sungai Kenawang.

Energy and Mineral Resources Minister Purnomo Yusgiantoro said that the additional oil output from the new fields was expected to increase the state's revenue from the sector by Rp6.9 trillion to Rp112.3 trillion in 2008.

Pertamina in Talks with Banks over New Field

State-owned oil and gas company Pertamina is currently in talks with French bank BNP Paribas and Japan's Mitsui Bank to help finance the development of its new field in Pondok Tengah, West Java, a company executive told *The Jakarta Post*.

"We have already negotiated the terms and conditions, and the results are good. We will, as soon as possible, announce which of the banks will be our lender in support of the project," Pertamina finance director Frederick Siahaan said Wednesday (29/8/07).

He said that the company was in the process of evaluating the proposals from the two banks. Siahaan said that, of the total \$475 million needed for the development of the Pondok Tengah field, \$250 million would be in the form of loans and the remainder would come from the company's equity. He said that the loan tenure was expected to range between five and seven years.

The Pondok Tengah field is expected to begin production next year with an initial output of 4,000 barrels per day. It is estimated that production will reach 12,000 barrels by the end of 2008.

Siahaan also said that a consortium made up of Pertamina, Japan's Mitsubishi and PT Medco Internasional was in the process of deciding the financial advisor for its Donggi-Senoro Liquefied Natural Gas refinery in Central Sulawesi.

The financial agencies that have put forward proposals are BNP Paribas, Standard Chartered, Sumitomo-Mitsui Bank Corp and Calyon Bank, the corporate and investment banking arm of France-based Credit Agricole Group.

The project will require total investment of \$1 billion, of which \$880 million will be from loans. The construction of the plant is scheduled to start this year. The plant is expected to begin operation by 2010, with a production capacity of up to two million tons per year.

Mitsubishi, which will become the sole buyer of LNG products, is the majority shareholder in the project, holding a 51% stake. Pertamina owns a 29% stake in the project, with Medco holding the other 20%.

Chevron Sees Output Up By 5,000 b/d For 2007

Indonesia's biggest oil producer, Chevron, expects its output this year to be up by 5,000 b/d on average from 415,000 b/d estimated originally for 2007, a senior official said late Thursday (30/8/07).

"The company has been conducting an enhanced oil recovery program to boost its output," the chairman of upstream regulator BPMigas, Kardaya Warnika, told *Platts Commodity News*.

Chevron had estimated earlier that its output from the Central Sumatra fields this year, including Minas and Duri, would fall 7-8% to 415,000 b/d from 445,000 b/d last year because of natural decline, as the fields have already matured. Without the EOR program, the decline in Central Sumatra would have been worse at 15-17%, president director of Chevron Pacific Indonesia Suwito Anggoro said earlier.

Anggoro said late Thursday that the higher production this year was due to increased drilling by the company. "We drilled 350 wells -- more than the original plan of 281 wells," he said, without giving details.

Chevron Pacific Indonesia plans a \$200 million pilot project using surfactant injection technology to halt its oil output decline in Central Sumatra's Minas field. If the project succeeds, it will be applied on a large scale by 2011.

The project is expected to increase Minas' output by 120,000 b/d by 2018-2019, BP Migas operation deputy chief Dodi Hidayat had said.

Sisi, Nubi Fields See Early Output

Total E&P Indonesia, the Indonesian unit of the French major, sees its Sisi and Nubi fields in East Kalimantan's Mahakam block commencing early gas production by November this year, a company spokesman told *Platts Commodity News* on Thursday (30/8/07).

Spokesman Ananda Idris said that the fields are expected to produce 50,000-80,000 Mcf/day in early output and will ramp up to 350,000 Mcf/d by March next year. Total has allocated \$1.1 billion to be spent in Sisi and Nubi this year, he said.

Sisi, discovered in 1986, and Nubi, discovered in 1982, are two gas fields located approximately 35 km offshore from the Mahakam delta. They have been evaluated through 19 exploration and delineation wells. Total, the biggest of Indonesia's gas producers, pumps around 2.6 Bcf/d of gas currently.

MINING

Coal & Oil in \$1.5b Deal for Kideco Coal

India's Chennai-based Coal & Oil, has signed an agreement with local trading major Samtan-Kideco to source 50 million tons of coal over 10 years. At current prices, the agreement is valued at \$1.5 billion and is claimed to be the largest of its kind in Indonesia.

"These imports will account for 10% of the total projected imports of coal into India in the next five years and translate into generation of about 1,500 MW of power per year," C&O president & CEO Ahmed Buhari told India's *The Economic Times* on Friday (31/8/07).

The \$450-million C&O is a fuel management company that provides logistics and materials to companies in India. The privately-held company has already tapped Tata Power and Reliance Energy to provide them with thermal coal sourced from Samtan-Kideco.

Samtan-Kideco, which has captive coal mines, is the third largest supplier of coal in Indonesia and has partnered C&O for the latter's Indian operations for almost a decade now. Spurred by infrastructure development, India is expected to add 73,000 MW of power in the next five years, at least 65% of which will be generated through coal-based thermal plants.

Antam H1 Profit Jumps on Metal Price

State owned miner PT Aneka Tambang (Antam) reported on Tuesday (28/8/07) its first half net profit rose more than five-fold, boosted by soaring metal prices.

The firm's net profit surged to Rp2.87 trillion from Rp515.2 billion a year ago, while sales revenue more than quadrupled to Rp4.1 trillion, Reuters reported.

Antam, 65% owned by the government, is involved in exploration and production of nickel ore, smelting of ferro-nickel, exploration, production and refining of gold, silver, bauxite and iron sands.

Antam has also suffered production problems. The firm had said its ferronickel output in the second quarter rose a lower-than-expected 6% because of a leak in its third smelter.

Antam produced 4,394 tons of ferronickel in April-June, and may not meet its 2007 production target of 20,000 tons as smelter repairs could take longer than anticipated.

Broker Positive on Timah

State brokerage PT Danareksa said Friday (31/8/09) it was maintaining its "buy" rating on PT Timah after Indonesia's largest tin exporter reported higher-than-expected earnings for the first half, Thomson Financial reported.

Danareksa said it is also keeping its target price for the stock at Rp18,250 per share. The target price is 48% above Timah's closing price today of Rp12,300. "We believe that the stock is undervalued despite its strong fundamentals," Danareksa analyst Isnapura Iskandar said.

He said the target price implies price earnings multiples of 7.3 times and 8.0 times its earnings forecasts for Timah for 2007 and 2008, respectively. Timah said net profit in the first half was up 32-fold from a year earlier to Rp780.8 billion, driven by higher tin prices and increased production and sales volumes.

Iskandar said the impressive first-half results indicate that Timah is starting to benefit from the crackdown on illegal mining and stricter government regulation on the export of refined tin. The tighter ruling on tin exports was issued early this year and has since helped keep tin prices firm.

He predicts Indonesia's tin exports will drop to 90,000 tons this year from 120,000 last year, which should further underpin tin prices.

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